

Pakistan Macro Flash

Rising Violence Risks Army Action, Potentially Negative for Credit

- **Violent protests:** Parallel anti-government protests by supporters of PTI leader Imran Khan and those of cleric Tahir-ul-Qadri turned violent over the weekend, ramping up pressure on the army, the country's most respected institution, to act. Tuesday's parliamentary session is likely to prove a flash point as protestors convene on parliament buildings to confront the politicians and press their demands for the immediate resignation of Prime Minister Nawaz al Sharif.
- **It is not clear what action, if any, the army may take:** On the one hand, Pakistan's history provides ample examples of coups, evidence of a military that is willing to intervene in the political process when it feels the necessity to do so. We also believe that the army's relationship with the current civilian government is somewhat strained, particularly over the ongoing prosecution of former military leader Gen. Pervez Musharraf. In our view, the intensifying violence therefore raises the likelihood that the military may intervene to restore order, with the forced removal of the Sharif government being one possible outcome.
- **The history of the Pakistani army suggests that it is mindful of public opinion:** We believe that it is unlikely to take action that would in any way risk undermining its legitimacy in the eyes of the wider population. This is particularly important at a time when the army is in the process of battling extremists within its own borders, most notably the Pakistani Taliban. A military move against the Sharif government would therefore require wider popular approval, in our opinion.
- **We do not believe that such approval exists:** This is despite the noise created by the estimated 70,000 protesters in Islamabad. A recent Gallup poll shows that public opinion remains firmly behind Prime Minister Nawaz al Sharif, with 66% of Pakistani respondents saying the PM should not resign in the face of protests, and only 33% saying he should. 63% of those polled also disagreed with the protests, against 30% who agreed (<http://gallup.com.pk>, August 28).
- **On balance, therefore, we expect that the Sharif government will remain in place:** However, it may be forced to make significant concessions to the protestors and the military. From a purely economic perspective, we would consider this a positive outcome insofar as it allows for policy continuity, particularly with respect to the structural reform underpinning the current \$6.6bn IMF programme, an important support to the credit in our view.

However, as the violence intensifies amid heavy-handed policing, the risk that public opinion shifts against the government rises, and with it that the army will intervene to restore order. In this scenario, we are less hopeful about policy continuity and medium-term growth prospects. This implies downward pressure on Pakistani risk assets in the coming days as the uncertainty increases.

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